



April 26, 2006

Mr. Hearing Officer
c/o Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

**Re: Alternative Proposal for June 1, 2006 Hearing to Consider
Amendments to the Stabilization and Marketing Plans for Market
Milk for the Northern California and Southern California Marketing
Areas – Class 2, 3 and 4a Pricing Provisions**

Dear Mr. Hearing Officer:

California Dairies, Inc. (CDI) on behalf of its producer – Members, respectfully submits this alternative proposal for amendments to the Stabilization and Marketing Plans.

CDI is a full service milk marketing cooperative with five (5) manufacturing plants that are owned by approximately 700 dairy farmer Members collectively producing over 17 billion pounds of milk per year or 42% of the milk produced in California.

The reason for our alternative proposal is to make cost justified changes to the Class 4a manufacturing allowances.

We are asking the Department to amend the manufacturing allowances used in the calculation of Class 4a milk prices based on information included in the Department's most recent manufacturing cost data released February 9, 2006. CDI respectfully requests that the manufacturing allowance for butter be increased to \$.1657 per pound and that the manufacturing allowance for nonfat powder be increased to \$.1626 per pound. These changes would adjust the current make allowances by the increase in weighted average cost as follows:

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TURLOCK
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Page 2
Mr. Hearing Officer

Weighted Average Cost as published:

	Butter	Nonfat Powder
2006 February (1)	\$0.1396	\$0.1666
2004 November	<u>\$0.1299</u>	<u>\$0.1560</u>
Change	\$0.0097	\$0.0106
Current Make Allowance	<u>\$0.1560</u>	<u>\$0.1520</u>
Requested Make Allowance	<u>\$0.1657</u>	<u>\$0.1626</u>

- (1) Adjusted for September 2005 utility prices as published. CDI's utility costs have increased since this update.

We are also asking the Department to amend the "f.o.b. California Price Adjuster" for butter to \$0.027 per pound. This is the weighted average price difference for the 12 months ending December 31, 2005 as shown on the latest butter sales price schedule titled "CME Butter Prices vs. Audited California Butter Sales" released April, 2006.

Additionally, we request that the butter and nonfat dry milk prices used in calculation of Class 4a milk prices be no lower than the federal support purchase prices.

Attached (Exhibit #1) are our proposed language changes to the Northern California and Southern California Stabilization and Marketing Plans.

Respectfully submitted,

CALIFORNIA DAIRIES, INC.


Joe Heffington
Senior Vice President & CFO

Cc: Mr. David Ikari, Chief - Dairy Marketing Branch
Mr. Richard Cotta - CDI
Mr. Gary Korsmeier - CDI

Exhibit #1

Proposed Language Changes to the Northern California and Southern California Stabilization and Marketing Plans

Section 300.0

(D) The minimum prices to be paid for components used for class 4a shall be computed as follows:

- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price, less an f.o.b. California price adjuster of ~~two and eighty-five hundredths cents (\$0.0285)~~ **two and seventy hundredths cents (\$.027)**, less a manufacturing cost allowance of ~~fifteen and six tenths cents (\$.156)~~ **sixteen and fifty seven hundredths cents (\$.1657)**, and the result multiplied by a yield factor of one and two-tenths (1.2).
- (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance of ~~fifteen and two tenths cents (\$.152)~~ **sixteen and twenty six hundredths (\$.1626)**, multiplied by a yield factor of one (1.0).
- (3) The butter prices used in calculations pursuant to this Paragraph shall be the **higher of the** simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month, **or the calendar weighted average of the federal support purchase price for butter in effect for the 26th day of the previous month and concluding the 25th day of the current month as announced by the United States Department of Agriculture.**
- (4) The nonfat dry milk prices used in calculations pursuant to this Paragraph shall be the **higher of the**

weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month, **or the calendar weighted average of the federal support purchase price for nonfat dry milk in effect for the 26th day of the previous month and concluding the 25th day of the current month as announced by the United States Department of Agriculture.**